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DIRECTORATE OF  
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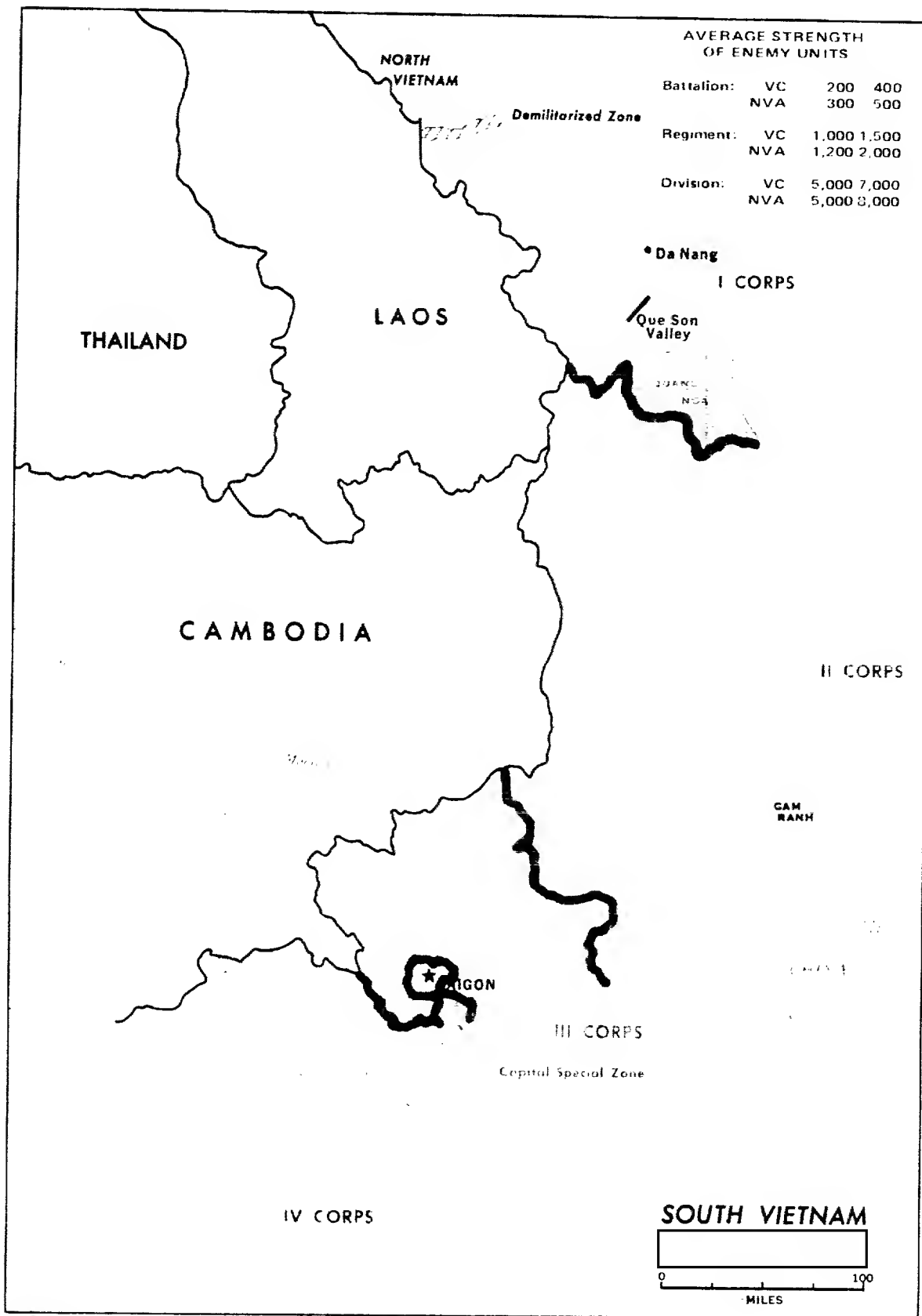


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South Vietnam: Sharp fighting continues in the Que Son valley southwest of Da Nang while Communist forces elsewhere are preparing for another "high-point" in early September.

Enemy attacks against lightly defended villages and outposts during the last three weeks have been meeting with some success. These attacks have featured destruction of government outposts, propaganda harangues, selective assassinations, and on occasion widespread destruction of civilian housing.

A vivid example of this kind of operation occurred in Quang Ngai Province on 27 August when the Viet Cong entered a village, gathered the people for a propaganda session, and finally destroyed some 260 houses before leaving with 41 civilian hostages. South Vietnamese Government irregulars defending the village failed to engage the enemy during the five hours the Communists were in the area.

Such tactics, along with terrorist attacks, are a principal feature of the Communists' current autumn campaign.

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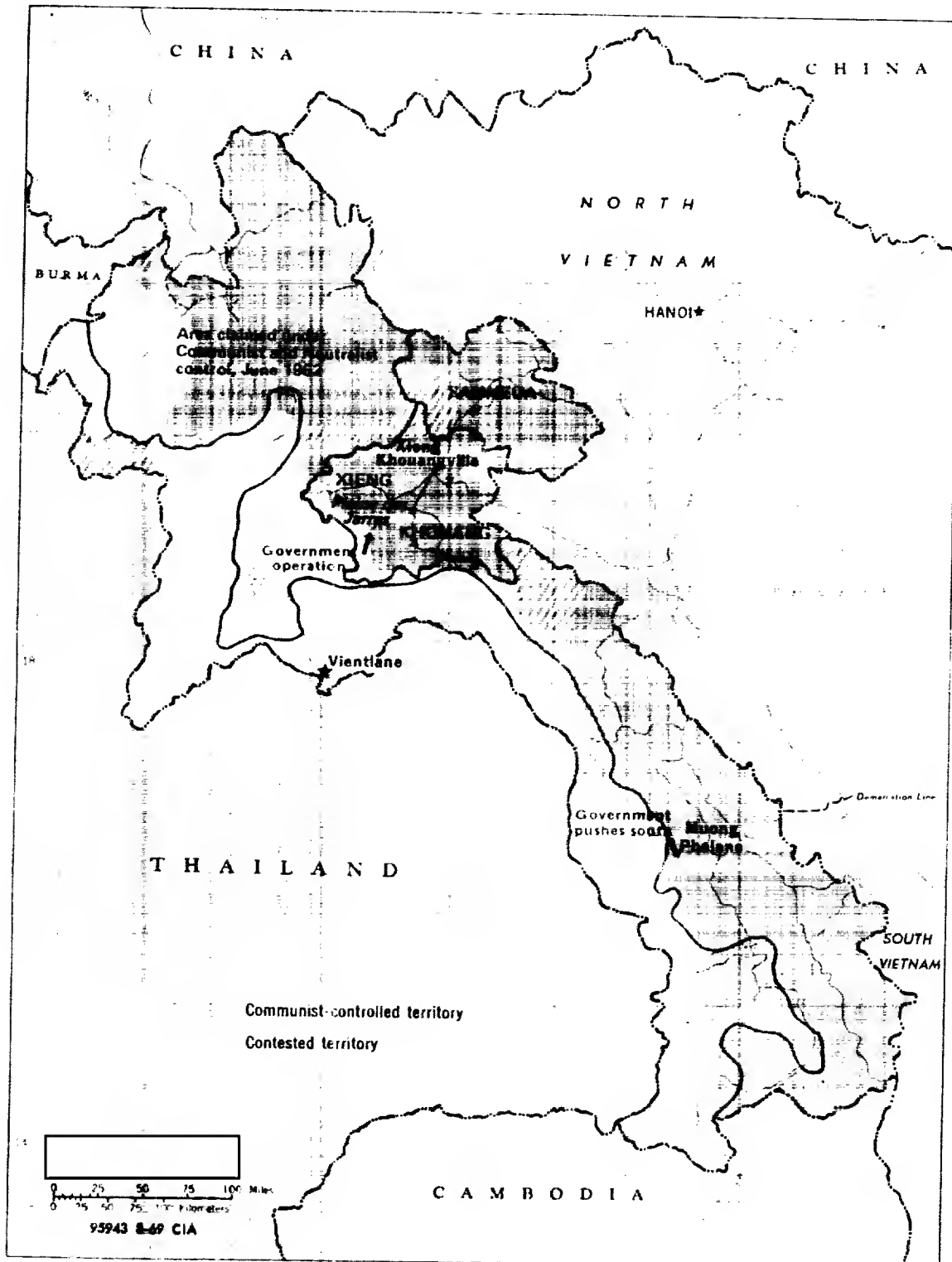
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## LAOS: Current Situation



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Laos: Government forces have chalked up some substantial gains as they continue to press their counteroffensive in the north.

Meo leader Vang Pao's guerrilla forces have pushed deep into the Plaine des Jarres, taking some positions in Communist hands since 1962. The government advances came with unexpected ease, suggesting that the offensive may have taken the enemy by surprise.

Originally intended as a diversion, the momentum of the Plaine des Jarres operation may cause Vang Pao, who has long talked about retaking the entire Plaine, to expand his objectives. A similar situation developed in late April when Vang Pao, heady with his initial successes against the Route 4 area, pressed on to capture the enemy stronghold of Xieng Khouangville. That offensive precipitated a sharp enemy rebuff and led to the loss of a number of government holdings near the Plaine.

There is some tenuous evidence that the government's initial successes against the Plaine may have been due to an earlier withdrawal of some North Vietnamese combat troops. Villagers residing near Route 7, a primary transportation artery linking North Vietnam with north Laos, reported large numbers of North Vietnamese troops moving east during mid-August. The villagers claim the troops told them they were on their way back to North Vietnam.

The military gains of the past several weeks are testimony to the resilience of Vang Pao's troops, as well as the difficulties the Communists have maintaining combat operations during the height of the rainy season. Vang Pao's efforts, however, are not directed toward regaining his bases in Samneua and northern Xieng Khouang provinces from which the guerrillas were driven during the past dry season. Vang Pao has successfully retaken these bases every

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year during the rainy season, and unless he does so again fairly soon, the Communists will be in a stronger position in the north than they have been since 1962.

Government forces have also been active in the south, where they are pushing into long-held enemy territory south and east of Muong Phalane. Although the enemy is only slowly reacting to these recent encroachments, past experience indicates that they will not accept for long the presence of government troops near the vital Communist infiltration corridor.

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El Salvador - Honduras: [There is a growing feeling in both countries that a resumption of hostilities is inevitable.

The Hondurans have been following Salvadoran arms purchases with trepidation, and renewed concern may be aroused by border incidents such as yesterday's shallow penetration of Honduran territory by approximately 90 Salvadoran troops.] El Salvador for its part is skeptical that the OAS can protect Salvadorans residing in Honduras or moderate the climate of anti-Salvadoran feeling. The Honduran boycott of Salvadoran products and the campaign by Honduran labor to have Salvadoran employees fired from their jobs have caused great concern.

Salvadoran President Sanchez and most of the military high command do not favor aggressive action at this time, but the chief of staff has openly advocated another attack. His views may be received sympathetically in some military and civilian quarters. The military successes in July left many Salvadorans with a feeling that Honduras could be easily conquered. Continued press coverage of Honduran mistreatment of Salvadorans will lead to pressure on the government to seek by force what it is unable to gain by negotiation. [REDACTED]

[REDACTED]

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**[Chile:** Well-organized student demonstrations over educational reforms continue into their second day in Santiago and other cities, and the authorities promised strong measures to maintain order.

A bystander was seriously injured by police in Santiago. Should he die, the municipal employees union, of which he is a member, may join the demonstrations. Police are using stronger tactics than they have in the past, and more than 150 students have been detained.

The demonstrations apparently are led by Socialists. Socialists and Communists have condemned the government's handling of the riots.

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Cyprus: President Makarios has outlawed the extremist National Front because of growing public indignation over recent acts of terrorism within the Greek Cypriot community. The front is made up mostly of former members of the old Greek Cypriot underground organization who favor the union of Cyprus with Greece. Makarios by his action has alienated an important segment of his own political support. He may feel forced to make some balancing gesture toward his supporters. This would have an unsettling effect on the Turkish Cypriot community and would further complicate the current communal talks.

[REDACTED]

\* \* \* \*

[REDACTED]

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Peru-Hungary: Peru has contracted to purchase \$3.35 million of Hungarian mining equipment, according to press reports from Budapest. Other projects are also being studied, and the president of one Peruvian mining company has informed the government that he intends to form a joint company with a Hungarian firm. The Velasco government, which is making a strong effort to attract foreign financing into the mining sector, has warned large US mining companies that their concessions will be opened to international bidding if agreements are not reached soon on new investments in unexploited holdings.

[REDACTED]

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International Trade: The grains management committee of the European Communities (EC) is reportedly nearing a decision that would result in a lower export price for EC wheat. This would increase the brisk price competition that has recently characterized the international wheat market and that has threatened to nullify the International Grains Agreement. Consultations among wheat-exporting countries on the price problem are likely in the next few weeks. The Dutch have drawn up proposals calling for a return to the price levels in effect before July and claim that Australia and Canada would be willing to cooperate.

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